DEPARTMENT OF STATE

BRIEFING PAPER

CONFIDENTIAL

DECLASSIFIED

(14)

THE APPLICATION OF DIMINISHING U.S. RESOURCES TO FOREIGN POLICY OBJECTIVES

A. Overview

Foreign assistance is a critically important element in our foreign policy. Our security assistance programs are our most immediate contribution to the defense of friends and allies abroad -- and an important source of diplomatic clout. Our development assistance addresses the longer-term problems that create dangerous instabilities. Higher oil prices and large external debts have increased the demand for assistance throughout the Third World. Both security and development assistance help compete effectively with the Soviet Union. Yet over the past decades, funding for our assistance programs has declined in real -- and in some cases, nominal -- terms.

B. Regional Priorities

The need for resources is underscored by a survey of representative near-term challenges by geographic region.

Important strategic and economic goals are at stake in East Asia:

-- Our development assistance to the Philippines has declined in absolute terms in each of the last three years despite the acknowledged importance of the Philippines to U.S. interests. Economic pressures in the Philippines will inevitably dictate a tougher and more demanding posture from the GOP in 1983 when the next round of base negotiations will begin. Our current agreement calls for substantial ESF and FMS credits.

-- As our assistance levels have fallen in recent years, our bilateral relations with Indonesia have suffered. Indonesia is a key member of ASEAN, a major supplier of petroleum and natural gas, and a country of major strategic importance to us. We cannot afford a deterioration in our relations there and are planning increases in security assistance levels in FY 82.

DECLASSIFIED

CONFIDENTIAL

GDS 12/1/86 (LAKE, Anthony)

DEPARTMENT OF STATE A/CDC/MR

REVIEWED BY [signature] DATE 6/7/83

RDS ☐ or ADS ☐ EAT. DATE

TS AUTH. REASON(S)

ENDORSE EXISTING MARKINGS ☐

DECLASSIFIED ☒ RELEASABLE ☒

RELEASE DENIED ☐

PA or FOI EXEMPTIONS

-- The People's Republic of China will place major demands on the budgets of the multilateral agencies, particularly the concessional loan program of the World Bank. By 1990, as much as 20% of IDA funds may be allocated to the PRC. China will also be looking to the United States for direct help in its modernization campaign.

-- Thailand, a U.S. treaty ally and the front line ASEAN state, faces Soviet backed Vietnamese aggression on its eastern borders. It is sustaining a large current account deficit, generating serious debt burdens as a non-oil producing LDC in addition to shouldering a large refugee burden. Its ability to meet these will depend on sustained high levels of development and security assistance throughout the 1980's.

Our strategic interest in Africa is growing:

-- Access to military facilities in Kenya, Somalia and Djibouti is basic to our Persian Gulf, Indian Ocean and Southwest Asia defense needs.

-- Madagascar, Mauritius and the Seychelles lie along vital oil routes from the Persian Gulf. The latter two countries provide us sites for tracking stations and access to port facilities.

-- Nigeria is our second largest supplier of oil imports, providing petroleum -- a fact of unmistakable importance to our economy.

-- Southern Africa will retain a special importance to the United States. The region is uniquely endowed with strategic natural resources. Our political influence throughout Africa depends on sustaining the peaceful transition of majority rule in Zimbabwe, working toward a settlement in Namibia, and effectively encouraging early peaceful change in South Africa.

Yet the continent has overwhelming needs which threaten all of these interests.

DECLASSIFIED

The greatest development challenge may be in Sub-Saharan Africa, where food is increasingly scarce and the pace of land degradation is so quickening that even firewood for cooking is often scarce. This is the only region of the world where per capita food production has actually declined steadily over the past 20 years. Rising fuel costs and payments deficits make the future look still more ominous.

Europe will make significant demands on our resources:

In Western Europe, Turkey will continue to require large amounts of foreign economic and security assistance for some years to come if the country is to avoid economic (and possibly political) collapse. Substantial American funding will be needed to maintain West German leadership on this issue, and to keep other Europeans participating. Moreover, some form of economic and security assistance quid will be necessary to maintain or expand our military facilities and rights in Spain, Portugal and Greece as well as in Turkey.

Meanwhile, political and economic uncertainty in Eastern Europe will be greater than at any time in the recent past. Poland in particular is having severe economic and financial difficulties which are likely to continue for several years. Other Eastern European countries are also experiencing an abrupt slowdown in economic growth which has coincided with mounting energy problems and declining investment and productivity.

Eastern European governments will pursue a number of remedies -- among them efforts to expand hard currency exports, to curtail imports, to secure credits from both the Soviet Union and the West, to arrange greater Soviet deliveries of raw material on concessional terms, to barter Eastern European technology for oil and to improve energy efficiency and conservation. However, such actions are unlikely to prevent near economic stagnation over the next several years.

DECLASSIFIED

In Poland this dilemma is particularly acute. U.S. interests are served by assisting Poland in its efforts to reform an economy in deep crisis. Yet helping ease the economic pressure that threatens to undermine possibilities of progress raises difficult policy and budgetary questions. The financing needs of Poland now far exceed the capacity of ExImBank and CCC programs. The credit demands of Hungary and Romania will also increase significantly in the years ahead. Whether the United States should provide special aid to Eastern European countries is an issue that will become more prominent in the years ahead.

Security and stability in South Asia and the Middle East are of vital interest to us:

-- In the wake of the Soviet invasion of Afghanistan, Pakistan could become a major claimant for both development and security assistance as well as debt rescheduling. To date, it has received only modest amounts of PL 480 and a one-year debt program.

-- Israel and Egypt must continue to receive significant levels of assistance if we are to promote peace, meet our commitments to Israeli security and territorial integrity, and maintain Egyptian cooperation as we implement our Southwest Asia/Persian Gulf strategy.

-- If progress toward a Middle East peace is made, Jordan, Lebanon and possibly Syria could also place additional demands on our security and development assistance resources, and there will be increased pressures to contribute to West Bank development.

Finally, in Central America and the Caribbean, the challenge in our own hemisphere will intensify:

Many countries face serious immediate economic difficulties and may confront challenges to their security in the next five years.

DECLASSIFIED

The Caribbean Basin countries will remain hard hit by rising energy prices. Caribbean economies will remain unable to create sufficient jobs for their populations. Vulnerable political systems will be further weakened, and illegal migration to the United States could increase.

In Central America, violence and political instability in El Salvador, and the possibility of increasing leftist insurgent movements in Honduras and Guatemala, will continue to make the area unattractive to foreign investment for the next several years. Higher levels of economic and security assistance will therefore be required to help shore up economies weakened by civil war, to aid in the implementation of needed reforms, to compensate for inadequate private investment, and to train and equip military establishments to deal more effectively with internal violence and external subversion.

C. U.S. Resource Trends

Coinciding with these escalating global demands and regional needs, there has been a steady erosion in the resources the United States has available for aid. Of the major aid donors, the United States ranks 14th in aid as a percentage of GNP.

In real terms, on the basis of what it will buy, U.S. economic and security assistance is less today than it was ten years ago. Under present projections this problem, too, will worsen in the years to come.

Over the past ten years the "uncontrollable" part of the U.S. budget has increased from 66% to 77% of total outlays. Thus the international affairs component, including foreign assistance, must compete with national defense and with "controllable" domestic programs for the remainder -- just under one-fourth of the budget.

Thus it is unlikely that even current aid levels can be obtained unless these budget projections are altered -- by changing overall budget trends, by confining or reversing the growth of the uncontrollable portion, or by other means.

ADJUSTED